Annual Report 2019

Washington Trust Bank
Member FDIC

Privately Owned. **Built in the Northwest.**

Chairman's Letter

Dear Customers and Friends:

December 31st not only closed out the year 2019, but also closed out the decade, and with that long view, much has changed and much progress has been made. But let's start with what we accomplished in 2019. There were some big themes that drove our performance last year, including strong loan and deposit growth, assets above the $7 billion mark for the first time in Bank history, falling interest rates, and several significant transformation projects that were both strategic and challenging. All of these factors combined to deliver overall positive results, but with some real dynamics across our financial performance.

Loan growth was strong throughout the year and deposit growth came on big in the fourth quarter, which helped drive total assets over the $7 billion mark. Loans finished the year at $4.5 billion, up $495 million, or 12.2 percent over 2018 year-end levels. Deposit growth surged late in the year driving deposit balances up $588 million, or 10.4 percent to $6.2 billion. Deposit growth in the fourth quarter was a record $631 million, which was influenced in part by larger commercial clients generating liquidity by exiting various investments. Some portion of these deposit balances are likely to be short-term in nature.

Growth in average loans and overall average earning assets during the year was amplified by widening net interest margin, which had a beneficial impact on earnings. Average loans grew $292 million, or 7.3 percent to $4.3 billion, while average earning assets (loans, securities and investible cash balances) grew $149 million, or 2.4 percent to $6.4 billion. For the year, the Bank's net interest margin widened by 20 basis points (bps) to 3.97 percent. The Bank's year-over-year average earning asset growth, together with a higher margin, drove net interest revenue higher in 2019 by $18.8 million, or 8.0 percent to $255 million.

While the year 2019 benefitted from growth and a widening margin, that all took place in the context of a dynamic rate environment that saw interest rates across the yield curve shift down significantly. The longer maturity end of the curve fell nearly 70 bps in the first half of the year, while in the latter part of 2019, near-term maturities fell roughly 90 bps, primarily in response to the Fed's monetary policy moves. While the decline in rates in 2019 will bring pressure on margin in the future, we've been taking steps to mitigate our exposure to declining rates for some time now. For example, we added to our investment portfolio during the year (up $307 million, or 19.3 percent to $1.9 billion) and did some repositioning to move our bond holdings further out on the yield curve. While that repositioning resulted in a $1.9 million loss on sale back in the second quarter, the longer term securities we purchased contributed to a significant increase in the overall value of our bond portfolio as market interest rates declined.

During 2019, the value of our securities portfolio improved by $36.9 million, contributing a $29.2 million after-tax increase in equity. Our strategy to book more single family home loans improved outstanding balances (up $130.9 million) and interest revenue (up $4.8 million), but also resulted in lower gains on the sale of home loans of $1.8 million year-over-year (reported in non-interest revenue).

For 2019, earnings came in slightly above 2018 results at $84.5 million. Our performance represented a return on assets of 1.28 percent and a return on equity of 13.24 percent. Return on equity was down 211 bps from 2018 due to average equity, the denominator in that ratio, increasing so significantly from earnings and improved bond valuations. For the year, the Bank's equity position increased $90.5 million, or 15.5 percent.

In 2019, non-interest revenue was down considerably, declining $3.0 million, or 5.8 percent to $48.4 million. There were a lot of dynamics at play in that performance, so allow me to walk you through some of the more significant items. The decline was due, in part, to our decision in the second quarter to take a $1.9 million loss on the sale of shorter-term securities in order to reposition and add duration to our bond portfolio. Non-interest revenue was also down year-over-year due to a $1.8 million decline in gains on the sale of single family loan originations, which was a deliberate strategy to redirect more loan originations to the balance sheet in order to build more earning loan balances and drive more recurring interest revenue into the future. Year-over-year comparisons were also made worse in our wealth management business given the income that was accelerated into 2018 due to the new accounting standard for revenue recognition, which contributed to a $470,000 year-over-year decline in revenue for this line of business. In 2019, we began a transformation of our debit card and credit card rewards program and while that conversion is only partially complete, we took considerable charges to reflect the expected full conversion cost of that program offering in 2020. We also converted our merchant services (the credit card systems our business customers use to process their customers' payments) to a new vendor and in the process incurred considerable expense that gets netted against the revenue this line of business typically generates. Collectively, the adverse year-over-year impact these two projects had on our non-interest revenue totaled nearly $1.3 million.

Overall, non-interest expense increased $11.3 million, or 6.3 percent to $191.9 million. Salaries and benefits comprised the largest share of that increase, rising $9.1 million, or 8.6 percent. Higher costs also reflect our ongoing strategy to invest in the Bank in a way that builds for the future. These investments include systems that advance our electronic delivery capabilities to our clients and systems that drive more opportunity for scale in how we operate. Significant staffing resources are being hired and redirected to a new process improvement group and project management team, as well as additional resources to support our compliance, vendor management and legal teams. The investment in these resources is necessary to help ensure we execute effectively in this increasingly complex environment.

Our team has developed a strategic roadmap for the evolution of key systems and delivery of banking services that stretches out for several years. There is value in ensuring the interconnectedness of our technology platforms, but that interconnectedness also presents challenges as we upgrade our systems. Building a modern bank where systems are integrated, data is free flowing and the customer delivery and experience is first rate is an ambitious objective. Our dependency upon third-party vendors, which have developed the systems that help us deliver banking services to our customers, continues to grow and that partnership rises in importance. Transforming what we do and how we do it is a crucial, expensive and necessary objective for the Bank.

It is quite a contrast to look forward into the future of the industry, which seems to center on technology, and then look back to where we have been over the past decade. Ten years ago, we were all in the throes of the Great Recession and the challenges were remarkably different from what we face today. Over the past ten years, we have strengthened our balance sheet and maintained strong financial performance. The Bank's capital position has grown more than $260 million. Over the past decade, the concentrations in our loan portfolio in higher risk categories have declined while our allowance for loan losses has increased from $70 million to $96 million. A stronger capital position, lower risk loan portfolio and higher allowance for loan losses strengthens the Bank's balance sheet positioning. The Bank's cash balances and securities have increased from $901 million, or 22 percent of assets to $2.4 billion, or 34 percent of assets, providing a stronger liquidity position to meet future cash needs. Earnings over the past decade have risen to levels I frankly had never imagined when I first came to the Bank. From a recession battered year in 2009 with $3.0 million in earnings, we now enjoy a balance sheet that generated $84.5 million in net income in 2019. That level of earnings positions us to continue to serve our customers, employ over 1,000 people and support our communities. I am proud to be part of an organization that has accomplished so much.

2019 was a solid year with both significant challenges and accomplishments. The end of the decade presents an opportunity to reflect backwards at all we have accomplished, while knowing that today's challenges are very different and will require a different focus, skillset and organization. Although it is also true that our mission remains the same; to be in a position to serve our customers' banking and financial needs so they can achieve their goals. We enter 2020 with strong positioning, lots of important objectives and a determination to continue striving to serve and grow our customer base. We remain grateful for the hard work and determination of our team and the loyalty of our customers. Please let us know if we can help you in any way.

Warm Regards,

Peter F. Stanton

Peter F. Stanton
Chairman of the Board and
Chief Executive Officer

Statements of Income
(unaudited)

	Years Ended December 31, 2019	2018
INTEREST REVENUE		
Loans, including fees	**$ 224,315,382**	$ 202,233,603
Deposits with banks	**7,713,318**	15,399,484
Securities	**41,993,998**	29,914,698
Other interest and dividend income	**308,244**	322,200
Total interest revenue	**274,330,942**	247,869,985
INTEREST EXPENSE		
Deposits	**16,844,718**	11,179,382
Funds purchased and other borrowings	**2,451,948**	452,236
Total interest expense	**19,296,666**	11,631,618
Net interest revenue	**255,034,276**	236,238,367
Provision for loan losses	**3,200,000**	2,700,000
Net interest revenue after provision for loan losses	**251,834,276**	233,538,367
NONINTEREST REVENUE		
Fiduciary income	**17,668,282**	18,138,449
Mortgage banking revenue, net	**4,015,838**	5,820,035
Other fees on loans	**1,210,720**	1,005,992
Service charges, commissions and fees	**21,961,854**	23,647,923
Securities losses, net	**(1,853,033)**	-
Net losses on other real estate	**-**	(92,638)
Other income	**5,352,344**	2,833,913
Total noninterest revenue	**48,356,005**	51,353,673
NONINTEREST EXPENSE		
Salaries and benefits	**114,769,476**	105,672,372
Occupancy, furniture and equipment expense	**20,498,839**	19,464,929
Other expense	**56,652,606**	55,481,297
Total noninterest expense	**191,920,921**	180,618,599
Income before income taxes	**108,269,360**	104,273,441
Income taxes	**23,790,512**	21,344,369
NET INCOME	**$ 84,478,848**	$ 82,929,072

Statements of Financial Condition
(unaudited)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	**$ 102,602,803**	$ 106,555,393
Interest-bearing deposits with banks	**523,953,345**	751,180,001
Securities available for sale, at fair value	**1,246,598,430**	1,030,059,621
Securities held to maturity, at amortized cost	**648,206,906**	558,191,770
Federal Home Loan Bank and PCBB stock, at cost	**7,911,600**	7,540,600
Loans receivable	**4,542,596,852**	4,047,398,419
Allowance for loan losses	**(96,414,721)**	(90,748,593)
Loans net of allowance for loan losses	**4,446,182,131**	3,956,649,826
Premises and equipment, net	**76,254,880**	47,883,482
Accrued interest receivable	**21,146,767**	20,924,004
Other assets	**79,065,769**	63,939,491
Total assets	**$ 7,151,922,631**	$ 6,542,924,188
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 2,824,865,238**	$ 2,421,715,824
Interest-bearing	**3,409,727,898**	3,225,410,151
Total deposits	**6,234,593,136**	5,647,125,975
Securities sold under agreements to repurchase	**163,069,316**	259,857,022
Accrued interest payable	**1,134,357**	2,084,277
Other liabilities	**78,172,851**	49,382,130
Total liabilities	**6,476,969,660**	5,958,449,404
SHAREHOLDER'S EQUITY		
Common stock	**7,534,503**	7,534,503
Surplus	**35,664,248**	35,664,248
Undivided profits	**645,111,725**	588,133,877
	688,310,476	631,332,628
Accumulated other comprehensive loss	**(13,357,505)**	(46,857,844)
Total shareholder's equity	**674,952,971**	584,474,784
Total liabilities and shareholder's equity	**$ 7,151,922,631**	$ 6,542,924,188

Directors & Officers
(as of December 31, 2019)

Board Of Directors

Peter F. Stanton
Chairman of the Board and Chief Executive Officer

John E. (Jack) Heath, III
President and Chief Operating Officer

Christopher Ackerley
Managing Partner, Ackerley Partners, LLC

Steven M. Helmbrecht
Venture Investor

Molly J. Scammell Hurley
Retired Officer, Washington Trust Bank

Michael J. Lee
President, Lakeside Industries, Inc.

John J. Luger
President, JDL Enterprises, LLC

Dennis P. Murphy
Chief Executive Officer, Hayden Homes, LLC

Peter D. Nickerson
Director and Co-founder, Chinus Asset Management

Nancy Sue Wallace
Community Volunteer

Jeffrey Wright
Chairman, Space Needle Corporation

Administration

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Chairman of the Board and Chief Executive Officer

John E. (Jack) Heath, III
President and Chief Operating Officer

Commercial Banking

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Regional President, Southern Idaho

Kevin L. Blair
Regional President, Western Washington
Oregon Group Manager

Linda A. Williams
Regional President, Oregon

Steve K. Roberts
Senior Vice President, Regional Manager/Credit Approval Officer, Central Washington

Steve L. Utt
Senior Vice President, Inland Northwest Group Manager

Credit Administration

Peter G. Bentley
Senior Vice President and Chief Credit Officer

Finance

Larry V. Sorensen
Senior Vice President and Chief Financial Officer

Laura M. Gingrich
Vice President and Chief Accounting Officer

Human Resources

Katy J. Bruya
Senior Vice President, Human Resources Director

Retail Banking, Information Technology, Operations, Client Experience, and Strategic Services

Jim D. Branson
Senior Vice President and Chief Banking Officer, Director of Technology, Operations, and Consumer Banking

Sharry J. Ditzler
Senior Vice President and Chief Information Officer

Tami T. Ferguson
Senior Vice President, Client Experience Director

F. Mack Wood
Senior Vice President and Strategic Services Director

Internal Audit

Johanne Lapointe
Senior Vice President and Director of Internal Audit

Legal

Burke D. Jackowich
Senior Vice President and General Counsel

Wealth Management & Advisory Services

Robert A. Blume
Senior Vice President, Managing Director

Locations

Washington

Bellevue
10500 Northeast 8th Street, Suite 1100

Deer Park
903 South Main Street

Ephrata
12 Basin Street Northwest

Liberty Lake
1427 North Liberty Lake Road

Moses Lake
402 South Ash Street

Pullman
670 SE Bishop Boulevard

Quincy
509 Central Avenue South

Seattle
601 Union Street, Suite 4747

Spokane
Airway Heights – 10609 West State Route 2
East Sprague – 3510 East Sprague Avenue
Five Mile – 1906 West Francis Avenue
Indiana – 27 East Indiana Avenue
Lincoln Heights – 2415 East 29th Avenue
Main – 717 West Sprague Avenue
Manito – 3103 S. Grand Boulevard
Maple & Garland – 3810 North Maple Street
Medical Center – 105 West 8th Avenue
Northgate – 7815 North Division Street
Second & Wall – 706 West 2nd Avenue
Wandermere – 438 East Hastings Road

Spokane Valley
Sullivan – 407 North Sullivan Road
Valley Financial Center – 310 North Argonne Road

Tri-Cities
Kennewick – 3250 West Clearwater Avenue

Wenatchee
East Wenatchee – 523 Valley Mall Parkway
North Wenatchee – 1851 North Wenatchee Avenue
South Wenatchee – 759 South Wenatchee Avenue

Idaho

Boise
Downtown – 901 West Bannock Avenue
Overland – 7802 West Overland Road

Coeur d'Alene
218 Lakeside Avenue

Garden City
7309 West State Street

Hayden
8050 North Government Way

Lewiston
1518 21st Street

Meridian
Meadow Lake – 4037 East Clocktower Lane
Meridian Financial Center – 3251 East Presidential Drive

Moscow
222 East Troy Road

Nampa
Idaho Center – 6010 East Franklin Road
Nampa – 2200 North Cassia Street

Post Falls
1601 East Seltice Way

Sandpoint
509 North 5th Avenue, Suite E

Oregon

Portland
760 SW Ninth Avenue, Suite 1900

EQUAL HOUSING LENDER